

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 COME-00 EB-07 FTC-01 CIAE-00 INR-07

NSAE-00 SP-02 AID-05 NSC-05 CIEP-01 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 L-03 H-02 PA-01 PRS-01 USIA-06

OPIC-03 INT-05 FEAEE-00 EURE-00 /083 W

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P R 301523Z JUN 75

FM AMEMBASSY BUCHAREST

TO SECSTATE WASHDC PRIORITY 3331

INFO AMEMBASSY BERLIN

AMEMBASSY BUDAPEST

JEMBASSY MOSCOW 2460

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: EINV, EMIN, RO, US

SUBJECT: GOR/ISLAND CREEK JOINT VENTURE IN U.S. COAL MINE

REF: (A) STATE 131714; (B) STATE 121276

1. SUMMARY: GOR AND ISLAND CREEK COAL CO. ON THRESHOLD OF
SIGNING

A FRAMEWORK AGREEMENT FOR \$150 MILLION JOINT VENTURE TO
OPEN NEW VIRGINIA COAL MINE. GOR WOULD INVEST \$50 MILLION
FOR ONE-THIRD INTEREST FOR WHICH IT WOULD RECEIVE ONE-THIRD
OF MINE'S PRODUCTION OF COKING COAL. WE HAVE NOT BEEN
APPROACHED BY GOR TO REQUEST CONSULTATIONS UNDER TERMS OF
ADMINISTRATIVE PROCEDURES REGARDING FOREIGN INVESTMENT AND
THEREFORE SOLICIT DEPARTMENT'S GUIDANCE WHETHER SUCH CONSULTATIONS
BELIEVED NECESSARY. END SUMMARY.

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2. ISLAND CREEK TEAM, LED BY FORMER SENATOR GORE, HAS BEEN IN BUCAREST PAST WEEK NEGOTIATING \$150 MILLION JOINT VENTURE WITH GOR FOR COAL MINE TO BE OPENED ON ISLAND CREEK-OWNED SITE BETWEEN ROANOKE AND BRISTOL, VIRGINIA. UP TO THIS POINT NEGOTIATIONS HAVE PROCEEDED RATHER FASTER THAN U.S. FIRM FIRST CALCULATED, AND IT IS NOW ANTICIPATED THAT FRAMEWORK AGREEMENT CAN BE SIGNED BEFORE GORE'S DEPARTURE TOMORROW.

3. AS CURRENTLY AGREED, EQUITY SHARES IN JOINT VENTURE WOULD BE SPLIT TWO-THIRDS FOR ISLAND CREEK, ONE-THIRD FOR GOR. ISLAND CREEK'S CONTRIBUTION WOULD BE IN FORM OF MINING PROPERTY WHICH IT VALUES AT 100 MILLION. FOR ITS SHARE GOR WOULD PUT UP 30 MILLION IN CASH AND LETTERS OF CREDIT SPREAD OVER THREE YEARS FOR EQUIPMENT REQUIRED TO GET THE MINE IN OPERATION.

4. ISLAND CREEK WOULD ACTUALLY OPERATE MINE UNDER MANAGEMENT CONTRACT. TWO PARTNERSHOULD SPLIT RIGHTS TO COAL PRODUCTION IN ACCORDANCE WITH EQUITY RATIO. IN ADDITION, GOR WOULD HAVE OPTION TO PURCHASE HALF OF ISLAND CREEK'S SHARE OF OUTPUT AT MARKET PRICE. WITH RESERVES ESTIMATED AT 40 MILLION TONS, GORE ESTIMATES POTENTIAL COAL EXPORTS TO GOR FROM THIS MINE TO BE IN EXCESS OF \$1 BILLION OVER MINE'S EXPECTED 25-30 YEAR LIFE.

5. UMBRELLA AGREEMENT WOULD PROVIDE GOR SPECIFIED PERIOD OF TIME (60 OR 90 DAYS) TO GIVE ITS APPROVAL TO JOINT VENTURE. IN INTERIM ISLAND CREEK AND GOR WILL CONTINUE TO WORK ON CONTRACTUAL AGREEMENT, DRAFTS OF WHICH ARE NOW FAIRLY FAR ADVANCED FOLLOWING LINE BY LINE REVIEW. FINAL SIGNATURE EXPECTED BY GORE ABOUT JANUARY. ISLAND CREEK WILL, HOWEVER, BEGIN CERTAIN PREPARATORY WORK (SITE CLEARANCE) IMMEDIATELY AFTER UMBRELLA AGREEMENT SIGNED.

6. JOINT VENTURE HAS REPORTEDLY BEEN NEGOTIATED IN ATMOSPHERE FREE OF CUSTOMARY GOR CONDITIONS, WHICH APPEARS TO BE TESTIMONY TO ROMANIAN DETERMINATION TO SECURE LONG-TERM SOURCES OF COAL. GOR HAS EXERCISED UNACCUSTOMED RESTRAINT IN DISCUSSIONS OF COUNTER-PURCHASES. LIST WILL BE PROVIDED TO ISLAND CREEK

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AND PARENT FIRM OCCIDENTAL OF COMMODITIES WHICH GOR EXPECTS TO HAVE IN EXCESS (UREA MENTIONED EXPLICITLY). REPORTEDLY, HOWEVER, NO EFFORT HAS BEEN MADE TO INSERT COUNTER-PURCHASE PROVISION INTO AGREEMENT. MOREOVER, THERE HAS BEEN NO GOR LINKAGE OF APPROVAL OF THIS INVESTMENT WITH CONGRESSIONAL ACCEPTANCE OF TRADE AGREEMENT.

7. ONLY MAJOR PROBLEM RELATED BY ISLAND CREEK TEAM IS QUESTION

OF LEGAL INCORPORATION. ROMANIAN NEGOTIATORS SIMPLY UNABLE TO FATHOM U.S. CONTRACT LAW. THEY HAVE ASKED AT VARIOUS TIMES TO RECEIVE COPIES OF VIRGINIA CONTRACT LAW AND ENTIRE INTERNAL REVENUE CODE. ISLAND CREEK, WHILE PATIENTLY ANSWERING QUESTIONS, HAS SUGGESTED ROMANIANS ENGAGE U.S. COUNSEL. GOR APPARENTLY CHARY, HOWEVER, ABOUT INCURRING ADDITIONAL EXPENSE.

8. WE HAVE BROUGHT TO ATTENTION OF ISLAND CREEK GENERAL COUNSEL NEW ADMINISTRATIVE PROCEDURES ON FOREIGN INVESTMENT PREVIOUSLY DISTRIBUTED TO APPROPRIATE GOR MINISTRIES. GENERAL COUNSEL, WHO STATED HE UNAWARE OF THESE PROVISIONS, INDICATED HE KNEW OF NO GOR INTENTION TO REQUEST CONSULTATIONS ON PROPOSED INVESTMENT.

9. ON QUESTION OF LIKELY DOMESTIC REACTION TO JOINT VENTURE AMBASSADOR AEWED GOR WHETHER GORE FORESAW CONGRESSIONAL OPPOSITION. GORE RESPONDED THAT HE HAD NO REASON TO EXPECT ANY STRONG ADVERSE REACTION, ALTHOUGH HE COULD IMAGINE THAT GOR INVESTMENT MIGHT GIVE RISE TO FEW SPEECHES ON FLOOR OF CONGRESS.

10. ACTION REQUESTED. IN VIEW OF SPECIAL FACTORS RELATIVE TO THIS FOREIGN INVESTMENT PROPOSAL--FOREIGN GOVERNMENT INVOLVED BEING SOCIALIST AND INVESTMENT BEING MADE TO SUPPORT EXPORT OF NATURAL RESOURCE--EMBASSY ASKS WHETHER THIS IS ONE OF "FEW EXCEPTIONAL CASES" (PARA 3, STATE 121276) WHICH COMMITTEE ON FOREIGN INVESTMENT WOULD WISH TO REVIEW. IN EVENT COMMITTEE WILL CONSIDER THIS PROPOSAL, WE REQUEST INDICATION OF PROBABLE TIMING OF DETERMINATION OF OUR ATTITUDE TOWARD CONSULTATIONS. IF CONSULTATIONS WITH GOR ARE DEEMED APPROPRIATE, WE DEEM IT EXTREMELY DESIRABLE THAT GOR BE INFORMED AS SOON AS POSSIBLE.

BARNES

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